Financial Statements For The Year Ended 31st March 2009

Independent Auditor's Report to The Ombudsman

(Established in Hong Kong pursuant to The Ombudsman Ordinance)

We have audited the financial statements of The Ombudsman set out on pages 3 to 16, which comprise the balance sheet as at 31 March 2009, and the statement of income and expenditure, the statement of changes in funds and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Ombudsman's responsibility for the financial statements

The Ombudsman is responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by The Ombudsman, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report to The Ombudsman (continued)

(Established in Hong Kong pursuant to The Ombudsman Ordinance)

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of The Ombudsman as at 31 March 2009 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
15 May 2009

Statement of Income and Expenditure for The Year Ended 31 March 2009

(Expressed in Hong Kong dollars)

	Note	*2009*	*2008*
Income			
Government subventions	3	$ 89,037,000	$ 81,652,442
Amortisation of Government subventions	3	2,965,040	2,965,040
Interest income on bank deposits		8,615,545	10,170,894
Other income		2,754	11,594
		$ 100,620,339	$ 94,799,970
Expenditure			
Operating expenses	4	(72,526,680)	(65,617,386)
Surplus for the year		$ 28,093,659	$ 29,182,584
Accumulated funds brought forward		225,396,808	196,214,224
Accumulated funds carried forward		$ 253,490,467	$ 225,396,808

Statement of changes in funds for the year ended 31 March 2009

The surplus in the statement of income and expenditure is the only change in net funds for the current and prior years.

The notes on pages 6 to 16 form part of these financial statements.

Balance Sheet as at 31 March 2009

(Expressed in Hong Kong dollars)

	Note	*2009*	*2008*
ASSETS			
Non-current assets			
Property, plant and equipment	7	$ 19,932,604	$ 20,998,597
Prepaid operating lease	8	65,019,296	66,413,516
		$ 84,951,900	$ 87,412,113
Current assets			
Deposits and prepayments		$ 797,562	$ 793,267
Interest receivable		3,632,164	4,490,898
Time deposits with maturity over three months		244,193,000	224,206,000
Cash and cash equivalents	9	13,174,601	4,343,179
		$ 261,797,327	$ 233,833,344
Total assets		$ 346,749,227	$ 321,245,457
LIABILITIES			
Non-current liabilities			
Contract gratuity payable - non-current	10	$ 3,432,868	$ 3,381,877
Government subventions - non-current	3	79,842,441	82,807,477
		$ 83,275,309	$ 86,189,354
Current liabilities			
Other payables and accruals		$ 1,611,944	$ 3,675,939
Contract gratuity payable - current	10	5,406,467	3,018,312
Government subventions - current	3	2,965,040	2,965,044
		$ 9,983,451	$ 9,659,295
Total liabilities		$ 93,258,760	$ 95,848,649
FUNDS			
Accumulated funds		$ 253,490,467	$ 225,396,808
Total funds and liabilities		$ 346,749,227	$ 321,245,457

Approved and authorised for issue by The Ombudsman on 15 May 2009

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The notes on pages 6 to 16 form part of these financial statements.

Cash Flow Statement for The Year Ended 31 March 2009

(Expressed in Hong Kong dollars)

	Note	2009	2008
Operating activities			
Surplus for the year		$ 28,093,659	$ 29,182,584
Adjustments for:			
- Interest income		(8,615,545)	(10,170,894)
- Depreciation		2,188,980	1,932,915
- Amortisation of prepaid operating lease		1,394,220	1,394,220
- Amortisation of Government subventions		(2,965,040)	(2,965,040)
- Loss on disposal of property, plant and equipment		4,431	-
Operating surplus before changes in working capital		$ 20,100,705	$ 19,373,785
Increase in deposits and prepayments		(4,295)	(179,439)
(Decrease)/increase in other payables and accruals		(2,063,995)	2,380,386
Increase in contract gratuity payable		2,439,146	242,245
Net cash generated from operating activities		$ 20,471,561	$ 21,816,977
Investing activities			
Interest received		$ 9,474,279	$ 9,454,537
Purchase of property, plant and equipment		(1,133,186)	(862,179)
Increase in bank deposits with original maturity over three months		(19,987,000)	(31,292,000)
Proceeds from sale of property, plant and equipment		5,768	-
Net cash used in investing activities		$ (11,640,139)	$ (22,699,642)
Increase/(decrease) in cash and cash equivalents		$ 8,831,422	$ (882,665)
Cash and cash equivalents at beginning of the year	9	4,343,179	5,225,844
Cash and cash equivalents at end of the year	9	$ 13,174,601	$ 4,343,179

The notes on pages 6 to 16 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Status of The Ombudsman

The Ombudsman was established as a corporation by statute on 19 December 2001. The functions of The Ombudsman are prescribed by The Ombudsman Ordinance.

The address of its registered office is 30/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by The Ombudsman is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of The Ombudsman. The adoption of the new and revised HKFRSs did not result in significant changes to The Ombudsman's accounting policies applied in these financial statements for the years presented.

The Ombudsman has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(e)).

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold improvements	10 years
Building	40 years
Office equipment	5 years
Office furniture	5 years
Computer equipment	4 years
Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of income and expenditure on the date of retirement of disposal.

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the statement of income and expenditure on a straight-line basis over the accounting periods covered by the lease term.

2 Significant accounting policies (continued)

(e) *Impairment of assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the property, plant and equipment's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of a property, plant and equipment is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where the property, plant and equipment do not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of income and expenditure in the year in which the reversals are recognised.

(f) *Other payable and accruals*

Other payable and accruals are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) *Employee benefits*

Salaries, gratuities, paid annual leave, leave passage and the cost to The Ombudsman of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of The Ombudsman. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expenditure in the statement of income and expenditure as incurred.

2 Significant accounting policies (continued)

(h) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when The Ombudsman has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) *Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and The Ombudsman will comply with attached conditions.

Government grants relating to costs are deferred and recognised in the statement of income and expenditure over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in liabilities as deferred government subventions and are credited to the statement of income and expenditure on a straight-line basis over the expected lives of the related assets.

(j) *Income recognition*

Provided it is probable that the economic benefits will flow to The Ombudsman and the income and expenditure, if applicable, can be measured reliably, income is recognised in the statement of income and expenditure as follows:

(i) Government subventions
Government subventions are accounted for on an accrual basis in accordance with note 2(i).

(ii) Interest income
Interest income is recognised as it accrues using the effective interest method.

(iii) Other income
Other income is recognised on an accrual basis.

2 Significant accounting policies (continued)

(k) Related parties

For the purposes of these financial statements, a party is considered to be related to The Ombudsman if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control The Ombudsman or exercise significant influence over The Ombudsman in making financial and operating policy decisions, or has joint control over The Ombudsman;

(ii) The Ombudsman and the party are subject to common control;

(iii) the party is a member of key management personnel of The Ombudsman or The Ombudsman's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a post-employment benefit plan which is for the benefit of employees of The Ombudsman or of any entity that is a related party of The Ombudsman.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 Government subventions/amortisation of Government subventions

Government subventions represent the funds granted by the Government for the daily operations of The Ombudsman. Amortisation of Government subventions represents the funds granted by the Government for prepaid operating lease payments, the purchase of buildings and certain leasehold improvements. Subvention income is recognised on a straight line basis over the period of the lease term or the useful life of the assets, which are estimated to be 54 years, 40 years and 10 years, respectively.

	2009	*2008*
Government subventions	$ 82,807,481	$ 85,772,521
Current portion of government subventions	(2,965,040)	(2,965,044)
	$ 79,842,441	$ 82,807,477

4 Operating expenses

	2009	2008
Employee benefit expense (note 5)	$ 63,554,087	$ 54,766,024
Depreciation of property, plant and equipment	2,188,980	1,932,915
Rates and management fee	2,099,276	1,887,727
Amortisation of prepaid operating lease	1,394,220	1,394,220
Operating lease rentals in respect of parking spaces	91,200	91,200
Auditor's remuneration	46,000	42,000
Announcement of public interest expense	-	2,376,627
Other expenses	3,152,917	3,126,673
Total	$ 72,526,680	$ 65,617,386

5 Employee benefit expense

	2009	2008
Salaries and allowances	$ 55,571,298	$ 47,685,656
Contract gratuity	5,783,584	4,999,970
Pension costs - MPF scheme	1,119,384	1,008,457
Unutilised annual leave	79,909	274,849
Other employee benefit expenses	999,912	797,092
	$ 63,554,087	$ 54,766,024

6 Key management compensation

	2009	2008
Short-term employee benefits	$ 11,583,458	$ 10,908,063
Post-employment benefits	1,595,352	1,485,201
	$ 13,178,810	$ 12,393,264

7 Property, plant and equipment

	Building	Leasehold improvements	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
Cost:							
At 1 April 2007	$ 16,800,000	$ 11,549,080	$ 11,371	$ 181,317	$ 1,055,702	$ 1	$ 29,597,471
Additions	-	-	60,452	331,214	470,513	-	862,179
At 31 March 2008	$ 16,800,000	$ 11,549,080	$ 71,823	$ 512,531	$ 1,526,215	$ 1	$ 30,459,650
Accumulated depreciation:							
At 1 April 2007	$ 2,122,438	$ 5,262,981	$ 1,400	$ 44,423	$ 96,896	$ -	$ 7,528,138
Depreciation	420,000	1,154,908	6,863	54,478	296,666	-	1,932,915
At 31 March 2008	$ 2,542,438	$ 6,417,889	$ 8,263	$ 98,901	$ 393,562	$ -	$ 9,461,053
Net book value:							
At 31 March 2008	$ 14,257,562	$ 5,131,191	$ 63,560	$ 413,630	$ 1,132,653	$ 1	$ 20,998,597

	Building	Leasehold improvements	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
Cost:							
At 1 April 2008	$ 16,800,000	$ 11,549,080	$ 71,823	$ 512,531	$ 1,526,215	$ 1	$ 30,459,650
Additions	-	22,755	380,409	194,744	535,278	-	1,133,186
Disposals	-	-	(9,454)	(3,500)	(885)	-	(13,839)
At 31 March 2009	$ 16,800,000	$ 11,571,835	$ 442,778	$ 703,775	$ 2,060,608	$ 1	$ 31,578,997
Accumulated depreciation:							
At 1 April 2008	$ 2,542,438	$ 6,417,889	$ 8,263	$ 98,901	$ 393,562	$ -	$ 9,461,053
Charge for the year	420,000	1,156,554	43,187	121,495	447,744	-	2,188,980
Written back on disposal	-	-	(1,668)	(1,487)	(485)	-	(3,640)
At 31 March 2009	$ 2,962,438	$ 7,574,443	$ 49,782	$ 218,909	$ 840,821	$ -	$ 11,646,393
Net book value:							
At 31 March 2009	$ 13,837,562	$ 3,997,392	$ 392,996	$ 484,866	$ 1,219,787	$ 1	$ 19,932,604

8 Prepaid operating leases

The Ombudsman's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2009	*2008*
In Hong Kong held on		
- Leases of over 50 years	$ 65,019,296	$ 66,413,516
	==========	==========

9 Cash and cash equivalents

	2009	*2008*
Cash at bank	$ 13,169,601	$ 4,338,179
Cash in hand	5,000	5,000
	$ 13,174,601	$ 4,343,179
	==========	==========

10 Contract gratuity payable

The amount represents the gratuity payable to staff on expiry of their employment contract. The amount of gratuity ranges from 10% to 25% of the basic salary less employer's contributions to Mandatory Provident Fund.

11 Taxation

The Ombudsman is exempt from taxation in respect of the Inland Revenue Ordinance in accordance with the Schedule 1A Section 5(1) of the Ombudsman Ordinance.

12 Commitments

(a) Capital commitments outstanding at 31 March 2009 not provided for in the financial statements were as follows:

	2009	*2008*
Contracted for	$ 132,838	$ -
	==========	==========

(b) At 31 March 2009, the total future aggregate minimum lease payments under non-cancellable operating leases in respect of parking spaces are payable as follows:

	2009	*2008*
Within 1 year	$ 7,600	$ 7,600
	==========	==========

13 Management of accumulated funds

The Ombudsman's primary objectives when managing its accumulated funds are to safeguard The Ombudsman's ability to continue as a going concern. The Ombudsman is not subject to externally imposed requirements relating to its accumulated funds.

14 Financial instruments

Risk management is carried out by the accounting department under policies approved by The Ombudsman. The accounting department identifies and evaluates financial risks in close co-operation with the operating units. The Ombudsman provides written principles for overall risk management such as interest-rate risk, use of financial instruments and investing excess liquidity.

The Ombudsman's activities do not expose it to significant foreign exchange risk, credit risk and liquidity risk. Except for the short-term fixed rate bank deposits which bear interests at the rates not substantially different from market rates, The Ombudsman has no other significant interest-bearing assets and liabilities. Accordingly, The Ombudsman's income and operating cash flows are substantially independent of changes in market interest rates and the exposure to cash flow and fair value interest rate risk is considered to be low.

(a) Credit risk

On 14 October 2008, the Government announced the use of the exchange fund to immediately guarantee repayment of all customer deposits held with authorized institutions in Hong Kong Special Administrative Region ("HKSAR") (which cover licensed banks in HKSAR, among others, and include HKSAR branches of overseas institutions) following the principles of the Deposit Protection Scheme, until the end of 2010. The bank balances of The Ombudsman are kept in the said authorized institutions and are therefore protected under the said scheme.

(b) Liquidity risk

The Ombudsman's policy is to regularly monitor current and expected liquidity requirements and to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

14 Financial instruments (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of The Ombudsman's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date The Ombudsman can be required to pay:

	2009				
	Carrying amount	*Total contractual undiscounted cash flow*	*Within 1 year or on demand*	*More than 1 year but less than 2 years*	*More than 2 years but less than 5 years*
Contract gratuity payable	$ 8,839,335	$ (8,839,335)	$ (5,406,467)	$ (2,685,064)	$ (747,804)
Other payables and accruals	1,611,944	(1,611,944)	(1,611,944)	-	-
	$ 10,451,279	$ (10,451,279)	$ (7,018,411)	$ (2,685,064)	$ (747,804)

	2008				
	Carrying amount	*Total contractual undiscounted cash flow*	*Within 1 year or on demand*	*More than 1 year but less than 2 years*	*More than 2 years but less than 5 years*
Contract gratuity payable	$ 6,400,189	$ (6,400,189)	$ (3,018,312)	$ (2,456,974)	$ (924,903)
Other payables and accruals	3,675,939	(3,675,939)	(3,675,939)	-	-
	$ 10,076,128	$ (10,076,128)	$ (6,694,251)	$ (2,456,974)	$ (924,903)

(c) Sensitivity analysis

At 31 March 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease The Ombudsman's income and accumulated funds by approximately $2,573,000 (2008: $2,242,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008.

15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2009 and which have not been adopted in these financial statements.

The Ombudsman is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of these standards may result in new or amended disclosures, it is unlikely to have a significant impact on The Ombudsman's results of operations and financial position.